

Quizzes

After Johan's lectures you should answer the associated quiz. The quizzes are meant to let you practice the key concepts in the lecture.

Please prepare a two-minute oral presentation. The time for presentation is indicated within parenthesis.

Lecture 1: Market delineation (Tues 3, 11-13)	2
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You are encouraged to collaborate with your classmates.

Note that you need to start preparing for the last quiz already the first week.

Lecture 1: Market delineation (Tues 28, 11-13)

Developing new truck models is an expensive business, which is only profitable if a truck manufacturer succeeds to reach a large scale. It is therefore necessary for truck manufacturers to be present worldwide and not only on their national markets. Volvo cannot focus exclusively on Sweden and MAN cannot be present in Germany only.

As the costs of developing new models rise, it becomes increasingly important to achieve scale economies. One way to achieve large scale is through mergers and acquisitions. Different brands can then collaborate on developing engines and other parts, thereby reducing the cost of development per truck.

Clearly such mergers reduce competition in the truck market. But the large number of truck manufacturers on the world market suggests that competition is intense today, and that competition will continue to be intense also after a few mergers. Thus, any loss of competition must be assumed to be low compared to the substantial gains in the form of cost reductions.

Based on such calculations Volvo and Scania agreed to merge their companies and applied for approval. But, much to their surprise, the European Commission decided to block the planned merger on the basis that it would lead to near monopoly in Sweden, Finland and some other countries.

One of the Commission's main arguments is that the different manufacturers also have their own networks of service garages, each specializing in their own brand. Also these networks are expensive to maintain which means that countries like Sweden, with a low population density, will only have a few networks. In fact, Volvo and Scania are the only manufacturers with a dense network of service garages here in Sweden. Also independent garages are rare. The road carriers thus have little choice, but to use the specialist workshops for services and reparations.

What is your opinion about the European Commission's decision to block the Volvo-Scania deal? Why did the Commission talk about national markets such as Sweden and Finland? Should the geographic market not be defined as the world or at least Europe? Even if there is little competition in one product market (services) there might be more intense competition in the other product market (trucks), which arguably is the more important market.

Lecture 2: Price competition and product differentiation (Tues 28, 14-16)

Give an example of a market where the products are very undifferentiated. Do you think that the firms compete intensely in prices? Why?

Lecture 3: Product choice (Wed 29, 11-13)

- Why is there so little differentiation in commercial (advertising funded) radio?
- Is differentiation without any value?

Lecture 4: Entry (Wed 29, 14-16)

The European Internal Market Program aims at removing all trade barriers between the Member States.

- What is the likely effect on the number of firms and market concentration in Europe?
- What are the welfare gains?

Hint: You may attempt to analyze this question more formally, using the entry model discussed in the lecture notes. To simplify the analysis, you may assume that Europe consists of two countries of equal size, that there is not trade before the reform and that there are barriers to trade (and no transportation costs) after the reform.

Lecture 5: Conduct and demand elasticity (Tues 4, 11-13)

Give an example of a market where demand fluctuates between different seasons. Is it the level of demand or the demand elasticity that varies over the different seasons? Are prices fluctuating?

If you wish, also try to answer the following question: What does possible price fluctuations say about the firms' market power (or conduct)?

Lecture 6: Entry and market size or Current issue (Tues 4, 14-16)

This time you may choose between two different questions:

1. Select a consumer product market. Use the Yellow Pages (<http://gulasidorna.eniro.se/>) to identify the number of firms active in this product market for a few different geographical markets (e.g. municipalities). Use Statistics Sweden's data on population in Swedish municipalities (http://www.scb.se/Pages/TableAndChart__256887.aspx) to measure the size of markets. How does the number of firms relate to market size.

Foreign students: Team up with a native or use a similar procedure for your own country.

2. Identify a current issue (discussed in the media during the course) where lack of competition is part of the problem. Can public intervention help?